

Global Treasury

702 SW 8th Street
Bentonville, AR 72716-0100
Phone 479.273.4382
Fax 479.273.1969
www.walmart.com

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Ms. Ann E. Misback
Board of Governors of the Federal Reserve System
Washington, DC 20551

RE: Docket No. OP – 1670
Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback,

Walmart thanks the Federal Reserve Board (the “Board”) for this opportunity to comment on the Board’s planned provision of a real-time gross settlement service (“FedNow”). As the Board is no doubt aware, Walmart has been an active participant in the ongoing industry efforts to improve the payments system in the United States.

While Walmart’s active involvement in such efforts stretches back farther, Walmart took on an active leadership role in both of the Federal Reserve System’s (the “Federal Reserve”) recent industry task forces, participating on the Steering Committee of both the Secure Payments Task Force (SPTF) and the Faster Payments Task Force (FPTF). Upon the completion of the task force work, Walmart also participated in the Governance Framework Formation Team (GFFT) efforts, which culminated in the 2018 launch of the U.S. Faster Payments Council (the “Faster Payments Council”). Subsequently, Walmart joined the Faster Payments Council and Reed Luhtanen of Walmart was elected to its Board of Directors.

Walmart has a keen interest in helping to drive to the needed enhancements for the payments system in the United States and has been willing to expend the resources necessary to advance this cause. We were gratified to see many other comments from across the spectrum – financial institutions, technology companies, consumer advocacy groups, payments service providers, network operators, and many others echoing our support for the Federal Reserve to move forward with developing FedNow.

We are excited by this opportunity to provide our thoughts on the path to putting FedNow into production and the features and functionality we view as priorities for the service.

Part One: Governance

The governance structure of this new payments system is a critical threshold consideration for the Board to consider in bringing FedNow to market. As the Board is aware, there are longstanding conflicts and misaligned interests and barriers to entry among the wide variety of payments system stakeholders. In order for FedNow to succeed and flourish in this environment, it is critical that the service leverage an effective, inclusive, open, and transparent governance structure.

The Federal Reserve's work in the FPTF and SPTF functions as a useful building block for this and – as we will discuss in detail below – other items related to the development of FedNow. Generally, Walmart believes the Federal Reserve should leverage the Faster Payments Council as the primary governance body for the FedNow solution. This position is supported by the Faster Payments Effectiveness Criteria developed jointly by the FPTF and SPTF (the “Effectiveness Criteria”).¹

As the Board is likely aware, the Faster Payments Council is a broad group, with representation from all major segments in the payments system, precisely as envisioned in the Effectiveness Criteria. Specifically, we note that the Effectiveness Criteria state that “[I]nclusive governance means the Solution should allow for input and representation from diverse stakeholders.” Further, the Effectiveness Criteria state that the “governance arrangements should provide for input and influence by all stakeholders” while another portion of the Effectiveness Criteria states that the Solution should have governance and advisory bodies that fairly represent stakeholders' interests and risks.” The Faster Payments Council is a purpose-built body that was structured by industry leaders specifically to align with these criteria.

The Faster Payments Council has the combination of diversity and expertise that FedNow will need to deliver the features and functionality the industry will demand. The Faster Payments Council has the ability to stand up work groups to develop solutions that can be integrated into FedNow and has standing committees dedicated to dealing with complicated matters such as interoperability with other solutions in the market.

¹ For all References to the Effectiveness Criteria, see “Faster Payments Effectiveness Criteria.” Available at <https://fedpaymentsimprovement.org/wp-content/uploads/fptf-payment-criteria.pdf>

Part Two: Solution Features

The Board has asked for comments on “all aspects” of the FedNow service. Before discussion of specific features that might or might not be included as part of the initial FedNow offering, Walmart makes the following observations and recommendations.

First, it is critical that FedNow be a holistic solution. It is not enough for the Federal Reserve to build the foundation layer and rely upon others to deliver the necessary layers of functionality on top of that foundation. Such an approach would likely lead to fragmentation and would delay, if not prevent, ubiquity of reach. Instead, the Federal Reserve should have a comprehensive product roadmap, leveraging the expertise that is available through the Faster Payments Council to develop a rich set of features and functionality that can be used across the industry to deliver faster payments.

Second, there is considerable discussion in the industry about the use cases that are appropriate for faster payments systems. While Walmart has observed the existence of a number of shortcomings of the existing payments systems, the purpose of a new payments system should not be solely to fill in the gaps where existing systems have badly failed us. The new system should seek to be universally applicable to all payments, not to solve for particular use cases. Such goal closely aligns with the Effectiveness Criteria guidance stating, “the Solution should enable any Entity...to initiate and/or receive payments to/from any Entity consistent with applicable legal restrictions.” This should be the vision for FedNow. Rather than focusing on the specific use cases that existing solutions fail to adequately address, the Federal Reserve should develop a flexible, robust platform that is capable of handling any type of payment.

Specifically, Walmart makes the following recommendations to the Board:

FedWire, National Settlement Service, and Liquidity Management Tool

The Board should decide definitively that FedWire and the National Settlement Service will be expanded to 24x7x365 in support of liquidity management. This should be delivered either prior to, or at the same time as, the launch of FedNow.

APIs

The Federal Reserve should deliver a set of standard APIs that can be used by developers to connect to the FedNow solution. These APIs should be created in an open forum, such as the Faster Payments Council, with full transparency to all stakeholders. In addition to the APIs needed specifically to initiate FedNow transactions, the Federal Reserve should develop a set of open APIs for all financial institutions to provide accountholders with greater control over their accounts. These secure open APIs should enable consumers and businesses to grant third party access to accounts to initiate transactions on behalf of the accountholder. This functionality will give consumers full control over their funds.

The Federal Reserve should adopt a standard graphical user interface that financial institutions can easily integrate into mobile banking applications. Such an approach serves two key goals of usability and predictability identified in the Effectiveness Criteria: (1) “Usability means that the Solution should provide a straightforward and simple End-User experience and be available anytime, anywhere, any way, using a variety of access points;” and (2) “Predictability means that the Solution should have a reliable and standard End-User experience for its baseline features.” This approach would promote usability and would expedite the path to ubiquity.

The approach taken by the Reserve Bank of India (RBI) is one the Board should consider emulating. The RBI has seen tremendous uptake in the use of its real-time payments system through an approach that includes the creation of standard value-added features such as secure open APIs, biometric authentication, and standard user interfaces for initiating transactions. This approach would likely be successful in the United States as well.

Interoperability

Given that FedNow will coexist with at least one other faster payments solution, Walmart believes the Board should have a plan in place to explore, and ideally deliver, interoperability between FedNow and other solutions in the market. Again, the Effectiveness Criteria provide guidance: “[i]f the Solution includes multiple operators or networks, it should have a credible plan to achieve interoperability across these entities.” Walmart notes that this criterion does have the caveat “if the Solution includes multiple operators,” suggesting a level of optionality here. On one hand, the Board could consider the “Solution” to include FedNow as well as other offerings in the marketplace. In this scenario, interoperability will be critical to achieving ubiquity.

Alternatively, FedNow could achieve ubiquitous coverage in its own right, making interoperability less important. In either case, the end state ought to be one in which a FedNow user can initiate a payment using FedNow, subject only to the fees and rules established by FedNow, and reach any deposit account in the country.

User fees

Walmart has observed a severe misalignment of incentives that has plagued the payments system in the United States for decades. Certain incumbents and large participants enjoy massive profits by stifling innovation in payments, ensuring that account access is limited to a small number of networks, and perpetuating barriers to entry for alternative solutions. Controlling this access allows the dominant players to extract rents from other payments system participants, ultimately resulting in higher costs for all consumers, particularly consumers who are unbanked or underbanked.²

To resolve this issue, Walmart believes FedNow should be established with a fee structure that is equally weighted between senders and receivers of payments. The value derived by users of the service is equal, as presumably both the sender and the receiver equally want the transaction to be processed, and so the fee paid by the users should be the same.

Request for Payment

The Board asked for input on the incremental value and ideal implementation timing of request for payment (“RFP”) functionality. Walmart has observed that RFP provides a useful shortcut for connecting senders and receivers and can foster adoption of faster payments services by removing friction from the process in certain use cases. RFP also eliminates uncertainty that can otherwise exist by allowing the two parties to identify each other with certainty prior to releasing the funds through an irrevocable credit push transaction.

² See the Boston Federal Reserve paper “Who Gains and Who Loses from Credit Card Payments? Theory and Calibrations.” Schuh, Shy, and Stavins. Available at <https://www.bostonfed.org/publications/public-policy-discussion-paper/2010/who-gains-and-who-loses-from-credit-card-payments-theory-and-calibrations.aspx>

While there are methods of achieving this without leveraging RFP functionality, Walmart does believe RFP will be a useful tool in driving toward ubiquitous faster payments in the United States. In addition to, or in lieu of, RFP, (as noted above) FedNow should partner with industry to develop and deploy standard technology templates and common business practices that can easily be adopted by businesses interested in receiving faster payments (e.g., a standard QR code template to be printed on utility bills or displayed at points of sale) and for financial institutions to integrate into their mobile applications (e.g., technical specifications to read the standard QR code with the phone's camera). In many cases, this approach can yield the same certainty and ease of use afforded by the RFP without requiring multiple messages to traverse the network.

Limit Use of Sensitive Credentials

As mentioned below in the discussion regarding the directory service, FedNow should be developed to minimize the use of sensitive account credentials. An alias system is a powerful tool in achieving this objective, as is tokenization. Walmart notes that the Effectiveness Criteria regarding "End-User Data Protection" states that the solution "should have controls and mechanisms to prevent the unintended exposure of End-User Data" and that "End-User Data, both digital and physical, should be protected in transit and at rest, before, during, and after a transaction, so that it is not exposed in-the-clear." Clearly one way of preventing the unintended exposure of sensitive data is by designing the system to function without the widespread use of such data in the first place.

There are multiple ways of achieving this, and more important than selecting one approach over another is likely the need to ensure that there is a layered approach that leverages the best available security technology for the circumstances and use case in question.

Confirmation of payee

One specific fraud prevention method that has been adopted in other markets where faster payments have been implemented is confirmation of payee. This functionality allows the sender of a faster payment to confirm that the account or alias they have entered is associated with the person or business they intend to pay. As this has been shown to prevent errors and fraud, confirmation of payee is now required for banks participating in the UK Faster Payments system.

Confirmation of Payee is also endorsed by the Effectiveness Criteria, which state that the solution “should have robust mechanisms to ensure the payment is destined to reach the intended Payee at the intended Payee Account.

Part Three: Directory Service

The Board also requested input regarding the development and implementation of a directory service to enhance the usability of the FedNow system. Walmart strongly endorses the development of a public utility directory service as an important prerequisite to adoption and ubiquity of faster payments. This viewpoint is supported by the Effectiveness Criteria, which state that “[t]he Solution should enable an Entity to initiate a payment with limited information (e.g., with a name, email address, and/or phone number) as appropriate for each use case.”

Our view is that such a service should be open to all users of the FedNow service and should be implemented in a way that allows vetted third parties to contribute directory information for the use of all FedNow users. In this way, the system as a whole can build a utility that will advance the usability of the system at a low cost to all participants.

Walmart also believes this public utility directory should empower consumers to access their own records to validate their accuracy and update as needed. This will be an important aspect of the service, as consumers will be in the best position to ensure their contact information is accurate. Further, consumers with multiple accounts associated with a single alias should be able to establish a default account for incoming faster payments. Establishing this functionality will encourage adoption and use of faster payments.

Directories can also serve an important security function, as the use of an alias directory reduces the need for system users to provide, transmit, and store sensitive account credentials. Again, the Effectiveness Criteria regarding security provide relevant guidance in stating that the solution “should have controls and mechanisms to protect sensitive information needed for Account setup, transaction setup and problem resolution from unnecessary disclosure.” As an example, the Effectiveness Criteria states that the “Payer and Payee should not need to know each other’s Account numbers or other sensitive information to initiate or receive the payment.”

Part Four: Fraud Services

All stakeholders have an obligation to combat fraud in the payments systems. While a number of legacy payments networks have developed highly profitable lines of business associated with the generally fraud prone nature of those same companies' core business, Walmart continues to advocate for safer, more secure payments solutions. And, when we are allowed to do so, we take practical steps to reduce fraud in our stores. Walmart has also established itself as a leader in the public dialogue regarding payments security, having helped to lead the Federal Reserve's Secure Payments Task Force, participated on the Board of Advisors for the Payment Card Industry Security Standards Council, and served as a co-chair within the Retail-Financial Services Cybersecurity Partnership.

The introduction of a new payments system can introduce additional risks to the payments system. While developers and industry participants are concerned with a broad array of aspects of the service (as evidenced by the nature of these, and surely many other, comments), would-be thieves are concerned with only one aspect – the weaknesses in the system's defenses that they can exploit. From a policy perspective, Walmart urges the Board to establish an approach to security that incentivizes the development and adoption of state-of-the-art security technology.

Further, we believe strongly that no participant in the system should be in a position to leverage market power to shift the costs of fraud or fraud prevention services onto other participants to the system. This incentivizes bad behavior, and ultimately exposes the entire economy to large-scale fraud risks, as we have seen in other payments systems in the United States. Finally, any approach to combatting fraud should ensure that participants are permitted (and ideally encouraged) to deploy the best available fraud prevention technology. In other payments systems, certain dominant market participants actively prevent merchants from leveraging security technology that is readily available. This results in the unnecessary occurrence of fraud.

To the extent the Board believes it can advance the above by providing specific fraud services, Walmart supports that approach. The payments system cannot afford to continue to operate as it has, with certain parties profiting from the occurrence of fraud and the use of fraud prevention services while making other stakeholders bear all the costs and risks.

Conclusions

The development and deployment of FedNow has the potential to revolutionize the operation of the U.S. economy by bringing 21st century technology to payments – the economy's circulatory system. Unlike many other aspects of the economy, every person and business makes and receives payments every day. For this reason, Walmart believes that time is of the essence for developing and deploying FedNow. We urge the Federal Reserve to work swiftly to bring this revolutionary foundation for the 21st century economy to the market as quickly as possible, and we stand ready to work alongside the Federal Reserve and industry bodies such as the Faster Payments Council to advance this objective on behalf of the entire payments system.

Respectfully,



Michael A. Cook
Senior Vice President and Asst. Treasurer



Reed Luhtanen
Senior Director Global Treasury